

How to Give Large Money Gifts for the Holidays

Besides making relatives happy, giving money can also help you to avoid estate taxes

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December 08, 2016

If you are feeling particularly generous toward your family members this year, you may decide to give them money gifts for the holidays.

For wealthy families, giving money isn't just welcome; it is a way to transfer wealth to your adult children or grandchildren while avoiding estate taxes. Plus, if they use it responsibly, you may take pleasure in seeing them enjoy it.

Follow these steps to make sure that you understand both the tax and financial planning implications of such a gesture.

Run the numbers with an adviser. Before you start giving away your cash, spend some time with your [financial planner](#) to make sure that you can do it while still meeting any short- or long-term money goals you may have. Some red flags about giving money gifts: You're at or near retirement and you have debt, you don't have a liquid emergency fund, or you haven't figured out how you'll pay for long-term care.

“We advise that you make sure to plan for yourself first, and then, within that structure, if you can help family members, that’s great,” says Ben Barzideh, a wealth adviser at Piershale Financial Group, a financial planning firm in Crystal Lake, Ill.

If you’re not able to make large money gifts now, put your extra cash toward your personal goals and work on creating an estate plan that will make sure that your loved ones receive any assets that remain after you’ve passed away.

Go to [Consumer Reports' 2016 Holiday Gift Guide](#) for updates on deals, expert product reviews, insider tips on shopping, and much more. Be sure to check our [Daily Gift Guide](#), and [sign up to get an e-newsletter](#) with top picks, trusted product reviews, and the latest news from CR.

Understand the tax rules. You can give away up to \$14,000 per person per year without either you or the recipient owing taxes on it. That means that you can give up to \$28,000 to a couple, and you and your spouse can give a total of \$56,000. If you give more than that, you have to file a federal gift tax return.

Individuals can give away up to \$5.45 million each in their lifetime (although that limit may change with the new administration), and a married couple can shield up to \$10.9 million in gifts from federal estate taxes. Only about two in every 1,000 people have the kind of wealth that would trigger such taxes, [according to the Center on Budget Policy and Priorities](#).

For the vast majority of people, giving a gift of more than \$14,000 will require some paperwork at tax time, but won’t actually result in owing additional taxes. That’s because the excess amount is counted against your lifetime exclusion, which is currently \$5.45 million.

“For most people, [giving a large financial gift] is a ledger entry, but that’s really the only consequence,” says Eleanor Blayney, consumer advocate for the Certified Financial Planner Board of Standards in Washington, D.C.

Some states have stricter rules around gift taxes, so check with your financial adviser to make sure your gift won’t trigger additional state taxes.

Consider Options Other Than a Check

While it may be easiest to simply write a large check to your relative, there are other options that might be more efficient, especially if you want your money gift to be spent in a specific way:

Direct payments: If you’re hoping the gift recipient will use the money to pay for medical expenses or tuition, you can make the payments directly to the service provider (a hospital or college) without the money counting toward the gift tax limits.

Retirement funds: Help working-age grandchildren get a head start on retirement savings by contributing to (or opening a) [Roth IRA](#). You can put an amount into the account equal to the maximum they can contribute, which this year is the lesser of either \$5,500 or the amount of their taxable earnings.

College savings: If you want the money to be part of a relative’s college savings, consider [opening a 529 account](#) in that person's name, or contributing to one that the parents have already started. The contributions will grow tax-free and can be used tax-free for qualified higher education expenses.

The gift-tax limits are a bit looser for 529 contributions. You can front-load contributions, or give five years' worth of gifts at once, for a total of \$70,000 per person or \$140,000 per couple, without having to notify the IRS. Some states allow you to take a state income tax deduction for a portion of your 529 contributions, but the rules vary, so check out the [details for your state here](#).

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